



Our Ref: B9/65C

20 August 2014

The Chief Executive  
All Authorized Institutions

Dear Sir/Madam,

**Engagement of External Business Referral Service Providers**

A recent survey conducted by the Hong Kong Monetary Authority (HKMA) found that many Authorized Institutions (AIs) engage external business referral service providers, which act as referral agencies for various types of credit business<sup>1</sup>. While the majority of such referral agencies engaged by AIs no doubt conduct their business according to high professional standards, I am writing to alert AIs to recent cases involving complaints from the public about unfair or improper business practices adopted by some referral agencies and to remind AIs of the need to exercise care and due diligence when engaging business referral service providers.

Complaints against business referral service providers brought to the HKMA's attention include:

- Charging of excessive fees for arranging loans
- Charging fees even when a loan is eventually not arranged
- Lack of transparency about the terms and conditions of loan referral services.

The use of business referral service providers by AIs may constitute outsourcing. Where use of the service provider does constitute outsourcing, the HKMA expects AIs to have effective and adequate controls in place to monitor the business practices of the service provider and manage the associated risks in accordance with Module SA-2 of the HKMA Supervisory Policy Manual on *Outsourcing*. AIs should remain accountable to customers for any misconduct on the part of the business referral service providers. Even where the use of business referral service providers does not constitute outsourcing, AIs are reminded of the reputational and other risks they may

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<sup>1</sup> Examples include mortgage loans, taxi and public light bus loans, hire purchase agreements, personal loans and business loans.

run if the service providers engaged by them engage in improper business practices or fail to treat customers fairly.

AIs should therefore ensure that any arrangements with business referral service providers are clear and properly managed and that the interests of customers will not be compromised. In this regard, AIs should, as a minimum:

- (a) exercise due diligence in selecting business referral service providers with whom to form a business relationship and take reasonable steps to ensure that the service providers are not engaging in unfair or improper business practices
- (b) communicate clearly to business referral service providers the AI's expectation that customers must be treated fairly
- (c) have proper procedures for handling customer complaints lodged against business referral service providers that they engage
- (d) maintain records of complaints about unfair or improper actions of their business referral service providers
- (e) have established procedures to consider terminating business relationships with business referral service providers if the AI becomes aware that they have engaged in unfair or improper business practices
- (f) where deficiencies are identified in the arrangements with business referral service providers, take appropriate action to rectify them
- (g) consider terminating business relationships with non-active business referral service providers.

AIs are also reminded of the need to ensure that they comply at all times with the provisions of the Personal Data (Privacy) Ordinance in the handling and transfer to third parties of customer data.

The HKMA will monitor AIs' compliance with SPM SA-2 on outsourcing and the good practices mentioned above. If you have any questions regarding this circular, please contact Mr Trevor Keen, Head (Payment Systems Oversight & Licensing) on 2878-1128 or Ms Ying-ying Cheng, Senior Manager (Licensing) on 2878-1884.

Yours faithfully,

Meena Datwani  
Executive Director (Banking Conduct)